



MEMORANDUM

TO: Mayor and Council Members
Toby Hammett Futrell, City Manager

FROM: Juan Garza, General Manager
Austin Energy

DATE: October 2, 2007

SUBJECT: Critical Business Need for Repair of Sand Hill Unit 3 Gas Turbine

ACTION:

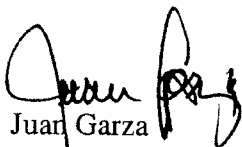
As detailed below, and in accordance with City Council-approved purchasing procedures, I am designating as a Critical Business Need of Austin Energy (AE), the repair of Unit 3 gas turbine at the Sand Hill Energy Center. The unit suffered a major compressor failure and after disassembly and evaluation at a turbine repair shop, we have a work scope and time estimate to accomplish repairs. While this unit is out of service, Austin Energy is without approximately 50 Megawatts of efficient and low emissions gas fired generation. The repair is estimated to require 60 to 75 days in the depot and therefore it is critical that we start the process as soon as possible.

BACKGROUND:

Sand Hill Unit 3 gas turbine engine suffered a major failure in the High Pressure Compressor section while in operation on August 27, 2007. The engine was removed and shipped to a certified gas turbine repair depot for disassembly, evaluation and preparation of a repair work scope. The estimate to repair the engine is \$ 2,700,000. This estimate is based on the initial inspection of engine components with engineering evaluations of some components still in progress. These engineering evaluations may impact the final cost to repair the engine, but a final cost cannot be determined until engine components are sent out to various vendors for evaluation and repair. Due to the time of year, the turbine shop has limited repair slots available, making it critical that we authorize and begin this repair as soon as possible.

We have filed an insurance claim and expect that a significant amount, less our deductible, will be reimbursed at a later date.

Austin Energy plans to bring this item forward for ratification by the City Council in the next several weeks. Please let me know if you have any questions. I can be reached at 322-6002.


Juan Garza
General Manager
Austin Energy